

VU Research Portal

Stilte voor de storm

Kluth, G.H.

2010

document version

Publisher's PDF, also known as Version of record

[Link to publication in VU Research Portal](#)

citation for published version (APA)

Kluth, G. H. (2010). *Stilte voor de storm: De invloed van het psychologisch contract op de vakkundige oordeelsvorming van registeraccountants*. [, Vrije Universiteit Amsterdam].

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal ?

Take down policy

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

E-mail address:

vuresearchportal.ub@vu.nl

S u m m a r y

SILENCE BEFORE THE STORM

Summary

Thomas Jefferson once said: “when a man assumes a public trust, he should consider himself as public property”. A financial auditor serves the general public. He or she audits financial statements and issues an opinion whether these statements present a true and fair view. In doing so, the auditor adds assurance or credibility to corporate financial statements, upon which investors (in part) base their economic decisions. The general public trust the auditor to do his utmost to assess the true and fair view of the financial statements. Conversely, the general public’s trust should not be greater than warranted the circumstances permit. This is, in essence, Limperg’s Theory of Inspired Confidence. And, in essence, also central to this thesis. Mutual trust is the very bedrock of the auditor’s existence and function. Not only from auditor to general public, but also from employee-auditor to employer-auditor. Audit services are largely performed in organisational settings by (larger) audit firms. The existence of organization settings brings forth a certain dynamic, especially when the setting pertains to professional service firms. Wanrooy (2007) dubs this as the dilemma of control versus autonomy. Our research explores the potential consequences of employment relationships on the quality of auditor’s professional judgment. The fundamental research question was: “*How should audit firms design their organisational structure and human resource management to safeguard the quality of auditor’s professional judgment?*”

Three perspectives

We approached the fundamental research question from three different perspectives. First, we investigated professional judgment. Then, we focused on the psychological contract as the bridge between individual auditor and the organisation. Finally, we evaluated the organization itself in terms of structure and HR practices.

Professional judgment

Chapter 2 dealt with professional judgment. We determined that professional judgment is a process with essentially four distinct phases: define the problem, develop alternatives, review the consequences of each alternative, and decide. Judgment by a professional transforms judgment into professional judgment. It is the professional judgment that is formed by applying the body of knowledge in a given subject. Our intent is just that: we focus on professions rather than occupations. Hence, our focus on *professional* judgment.

Professional judgment tends to be elusive, in part due to the fact that our body of knowledge has not yet fully matured. It is not a cookery book, that provides the complete and guaranteed recipe for an audit of financial statements, including a precise description on how to achieve a true and fair view. Auditors do have standards, but these are more like guidelines, principles and assumptions the designated auditor uses to the extent effective and efficient in a given engagement. The experience the auditor gains over time makes professional judgment valuable. A good auditor should have served “time in the trenches”, so as to not just understand, but appreciate the circumstances.

The psychological contract

Chapter 3 focused on the bridge between the professional and the organization, being the psychological contract. This research defines a psychological contract as: “*the individual belief systems held by workers and employers regarding their mutual obligations*” (Rousseau, 2005, p. 81).”. The pre-employment phase plays a pivotal part in the establishment of a psychological contract, as in this phase especially the potential employee develops implied obligations and expectations towards the organisation. Organisational culture, alternatives and (prior) experiences with the organisation further develop the psychological contract. Psychological contracts are therefore often viewed as processes, where ‘contracting parties’ inform one another, negotiate the terms and conditions, monitor mutual performance and renegotiate or terminate the relationship. A process orientated approach to psychological contracts also enables one to distinguish different types of contracts. Some are transactional, whereas others are relational, depending on short-term versus long-term focus and direct versus indirect results. The state of the psychological contract has both a positive as well as a negative influence on the performance of a professional. Positive effects are, amongst others, perceived organizational support and organizational citizenship behavior.

Organisational structure and HR practices

Chapter 4 described the organisational taxonomy of audit firms and the way in which HR is structured. Multiple theories on organisational taxonomy were discussed to arrive at the bureaucracy theory as being most suited for audit firms. Three dimensions are distinguished in bureaucratic research: formalisation, centralisation and control of workflow (line control versus impersonal control). An audit firm can be viewed as a professional bureaucracy with high levels of formalization and centralization, in combination with line control of workflow.

The remainder of chapter 4 discussed human resource management. There are two main approaches to HR: *human Resource Management* and *Human Resource management*, depending on whether an organization views its employees as capacity or capital. Based on these approaches the auditor as a

professional would benefit most from *HRm*, with its central themes of commitment and engagement. The Resource Based View of the Firm by Paauwe further details *HRm*. HRM is frequently structured towards either control or commitment. Recent theory adds productivity and collaboration as structural dimensions.

Findings

Finding 1: There is no consensus amongst financial auditors.

We surveyed financial auditors on three instances of professional judgment: materiality assessment, material error assessment and type of auditor's opinion. Our results show, that consensus is only clearly present when assessing materiality. These results hold across audit firms. Consensus increases when applying experience or heuristics, albeit not significantly.

Finding 2: The psychological contract influences the level of consensus amongst auditors.

The content of the psychological contract we found for auditors supports prior research in different occupations / professions (Ten Brink, 2005; Freese, 2007). The state of the psychological contract increases the level of consensus in a given judgment setting. This is especially the case in more complex settings, as in these settings the auditor cannot fully rely on heuristics or experience. Although the state of the psychological contract can change as time passes, we found that the relationship between contract and consensus is stable across experienced and inexperienced auditors.

Finding 3: Appreciation for compliance and job demands is essential to effectively manage the state of the psychological contract.

The state of the psychological contract deteriorates when perceived compliance pressure and perceived job demands increase. As a consequence, consensus amongst financial auditors is influenced by compliance pressure and job demands. Affective professional commitment can moderate between compliance pressure / job demand and the state of the psychological contract. Job decision latitude has significant impact on the state of the psychological contract, but cannot exert moderating influence on compliance pressure and job demands. We note that auditors apparently see standards as distinct from professional performance of procedures, resulting in the perception that there is pressure to comply.

Finding 4: An audit firm is at best a workflow bureaucracy, but more likely a full bureaucracy.

Our results do not support the existence of a professional bureaucracy. Audit firms can be typified as *workflow bureaucracy*: audit firms are structured as

organisations with decentralised authority, in conjunction with high formalisation of the core process and a high level of impersonal control. What strikes one most is the presence of impersonal control, as this is contradictory to professionalisation theory. Our research further shows that taxonomy does not significantly influence the state of the psychological contract. Our results also do not provide conclusive evidence that taxonomy affects the affective organisational commitment of professionals.

Finding 5: HRM does not affect the state of the psychological contract.

We have not established a direct relationship between the state of the psychological contract and the architecture of human resource management. Apparently, respondents view human resource management as a given, not directly influencing how professionals assess their relationship with the audit firm. More can be expected from the relationship of the professional and his or her performance manager, as our results show significant correlations between the state of the psychological contract and the strength of the bond with the performance manager.

Implications and recommendations

Chapters 6 and 7 detail the results of our research. These results show, that audit firms should be aware of the potential influence the psychological contract has on the work performed by auditors. Especially in those circumstances, where professional judgment tends to be more complex, the state of the psychological contract is part of the equation.

The main recommendation of this thesis is to pay more attention to the softer side of auditing: the person behind the auditor's mask and the relationship of that person with the audit firm. HRM should be built into rather than built onto the core processes of the audit firms. One should bear in mind, that one HRM-size does not fit all. There are new ways of employment, to discover such as *i-deals* (Rousseau, 2005), in which employer and employee both seek a win-win-win situation (organisation, employee and co-workers). Affective organizational commitment and affective job commitment can prove to be useful concepts. Communication should appeal to the professional code of honour, as well the togetherness to serve clients and compliance with professional standards. Simultaneously, audit firms should refrain from extending its quality management system above and beyond legal and professional requirements. If it serves the image and stature of the firm, yes, but not if stems from being overly cautious.

Ensuring the commitment of the professional is also the key to (re)gain and maintain public justified trust: being transparent on mutual expectations and obligations. The professional plays a pivotal role between organization and general public in meeting these expectations and obligations.